



EASTERN BAKERIES Limited

Annual Report

For the fiscal year ended October 28, 1978



THE ORIGINAL BUTTER-NUT BOY

50 YEARS

1928 - 1978



EASTERN BAKERIES Limited

SUBSIDIARY COMPANY

BERWICK BAKERY LIMITED

DIRECTORS

L.M. BELL H.W. BLAKELY R.B. BRENAN JR.
R.G. DALE D.G. HICKINGBOTTOM L.M. MACHUM, Q.C. J.A. TELFER

MANAGEMENT

DONALD G. HICKINGBOTTOM, President and Chief Executive Officer
JOHN H. BLACK, Secretary Treasurer
S. FRASER CAMPBELL, Vice President, Production
GLEN J. GIBBONS, Vice President, Finance
JOHN T. NISBET, Vice President, Sales

D.G. ANGLIN, Director of Operations
H.J. ARSENEAULT, Manager Operations — Berwick Bakery Division
W.J. CHASE, Manager, Data Processing
R. CHAFE, Manager Operations, Walsh's Bakery Division

F. HART, Manager, Moncton Plant
D.A. NOEL, Director of Marketing
I.C. PARKER, Comptroller
G.J. YOUNG, Manager, Personnel Relations

AUDITORS

THORNE RIDDELL & CO., Saint John, N.B.

BANKERS

BANK OF MONTREAL, Saint John, N.B.

TRANSFER AGENTS

MONTREAL TRUST COMPANY, Saint John, N.B.

THE COVER

The Butter-Nut Boy appearing on our cover, was reproduced from original engravings dated 1913. Robinson's Bakery which was acquired in 1928, by Eastern Bakeries had used the "Boy" as their symbol from the date mentioned. For many years thereafter the Butter-Nut Boy appeared on Company vehicles and products as its principal corporate symbol. In 1978 the Butter-Nut Boy was used once again to commemorate our 50th anniversary.

EASTERN BAKERIES LIMITED, 1978



TWO NEW BUTTER-NUT PRODUCTS

FINANCIAL HIGHLIGHTS

	<u>1978</u>	<u>1977</u>
NET SALES	21,556,804	19,722,621
INVESTMENT INCOME	171,177	185,513
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	1,895,303	1,755,150
INCOME TAXES	776,397	754,652
INCOME BEFORE EXTRAORDINARY ITEM	1,118,906	1,000,498
NET INCOME FOR THE YEAR	1,118,906	1,249,254
EARNINGS PER SHARE		
BEFORE EXTRAORDINARY ITEM	3.01	2.63
EARNINGS PER SHARE FOR THE YEAR	3.01	3.31
RETURN ON INVESTMENT		
BEFORE EXTRAORDINARY ITEM	16.8%	17.1%
DIVIDENDS ON COMMON SHARES	430,831	317,231
DIVIDENDS ON PREFERRED SHARES	—	29,150
EQUITY PER COMMON SHARE	16.28	14.48
WORKING CAPITAL	2,611,855	2,299,467
CAPITAL SPENDING	1,340,228	780,952

TO THE SHAREHOLDERS

In the fiscal year just ended, our 50th. year in business, Eastern's sales reached record levels and our earnings, exclusive of extraordinary item, were the best ever achieved.

Results for the fiscal year which ended October 28, 1978 show that earnings were \$1,118,906 or \$3.01 per share as compared to \$1,000,498 or \$2.63 per share for the previous year. The extraordinary item of \$248,756, representing the after-tax gain on the sale of property, raised net income last year to \$1,249,254 or \$3.31 per share.

Sales for the year were \$21,556,804, up 9.3% over the \$19,722,621 recorded last year.

A good portion of our sales increase represents an improvement in volume, resulting principally from new products added. The volume of our new bread items, "Butter-Nut Old Fashioned" and "Butter-Nut Multigrain", introduced earlier in the year, continues to exceed our expectations. The success of these fine new products acts as a great motivator to those of our people involved in product development and adds a very positive note to our sales outlook.

The principal capital project undertaken during 1978, and announced in last year's annual report to the shareholders, is nearing completion, according to plan. This project, which involves the installation of a fully automated roll line in our Moncton bakery, is expected to increase capacity and improve quality while introducing new economies to our Company.

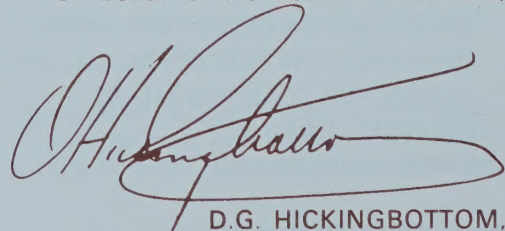
At a Board of Directors' meeting held on September 19, 1978, By-Law "ZZ" was enacted by the Directors providing for the subdivision of the common shares of the Company on the basis of three-for-one. The shareholders subsequently confirmed this By-Law at a special general meeting held December 14, 1978.

At a Directors' meeting held October 20, 1978 a special dividend of 25 cents per common share was declared and paid on November 15, 1978 to those shareholders of record at the close of business on October 28, 1978. At a Directors' meeting held December 14, 1978, a dividend of 11 cents per share was declared, payable January 15, 1979 to those shareholders of record at the close of business on December 29, 1978; this dividend is applicable to all shares held after giving effect to the aforementioned subdivision.

In early December 1978 the Federal Government announced its intention to remove the wheat subsidy paid to the western grain producers. The removal of this subsidy, which has kept the price of wheat to millers at \$3.25 per bushel since 1973, increased the price per bushel to the world price level, presently at \$4.80. Flour cost, as a result, increased approximately \$4.00 per cwt., thus necessitating a significant price increase on all bakery products. We share the concern expressed within the industry on the impact this will have both on consumers and particularly those in lower and fixed income brackets, and the effects as well this could have on the consumption of bakery foods throughout Canada.

The Board of Directors of Eastern Bakeries Limited expresses its most sincere appreciation to our employees, and to all those involved in helping the Company accomplish another record year.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "D.G. Hickingbottom", is written over a horizontal line.

D.G. HICKINGBOTTOM,
President and Chief Executive Officer

December 15, 1978

YEASTERN

File

EASTERN BAKERIES LIMITED
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED OCTOBER 28, 1978

	<u>1978</u>	<u>1977</u>
Sales and revenues		
Sales	\$21,556,804	\$19,722,621
Investment Income	<u>171,177</u>	<u>185,513</u>
	<u>21,727,981</u>	<u>19,908,134</u>
Costs and expenses		
Cost of sales and operating expenses	17,440,156	16,176,020
Administration	1,749,043	1,519,593
Depreciation	<u>643,479</u>	<u>457,371</u>
	<u>19,832,678</u>	<u>18,152,984</u>
Income before income taxes and extraordinary item	<u>1,895,303</u>	<u>1,755,150</u>
Income taxes		
Current	638,397	698,652
Deferred	<u>138,000</u>	<u>56,000</u>
	<u>776,397</u>	<u>754,652</u>
Income before extraordinary item	1,118,906	1,000,498
Extraordinary item		
Gain on sale of land and building, less income taxes of \$48,300 related thereto		<u>248,756</u>
NET INCOME	<u>\$ 1,118,906</u>	<u>\$ 1,249,254</u>
Earnings per common share		
Income before extraordinary item	<u>\$ 3.01</u>	<u>\$ 2.63</u>
Net income	<u>\$ 3.01</u>	<u>\$ 3.31</u>

CONSOLIDATED BALANCE

ASSETS

	<u>1978</u>	<u>1977</u>
<i>CURRENT</i>		
Cash	\$ 132,722	\$ 256,054
Term deposits	1,483,870	692,580
Marketable securities, at cost (quoted market value 1978, \$1,144,198; 1977, \$1,214,210)	1,118,514	1,180,354
Accounts receivable	1,494,265	1,475,001
Income taxes recoverable	127,979	
Federal equipment grant receivable	10,750	65,000
Inventories	421,706	403,975
Prepaid expenses	170,658	153,161
	<u>4,960,464</u>	<u>4,226,125</u>
<i>OTHER</i>		
Mortgages receivable		164,000
Investments	7,100	7,100
	<u>7,100</u>	<u>171,100</u>
<i>FIXED (note 2)</i>		
Land, buildings, machinery and equipment	9,337,779	8,121,163
Less accumulated depreciation	5,655,529	5,131,594
	<u>3,682,250</u>	<u>2,989,569</u>
<i>INTANGIBLE</i>		
Goodwill	376,354	376,354
	<u>\$9,026,168</u>	<u>\$7,763,148</u>

Approved by the Board:

Director R.G. DALE

Director D.G. HICKINGBOTTOM

HEET — OCTOBER 28, 1978

LIABILITIES

	<u>1978</u>	<u>1977</u>
<i>CURRENT</i>		
Bank advances	\$ 50,000	
Accounts payable and accrued liabilities	1,476,767	\$ 1,306,253
Payable to parent company, Maple Leaf Mills Limited	536,023	422,455
Income and other taxes payable	192,968	197,950
Dividends payable	92,851	
	<u>2,348,609</u>	<u>1,926,658</u>
 <i>DEFERRED INCOME TAXES</i>	 <u>630,000</u>	 <u>492,000</u>

SHAREHOLDERS' EQUITY

<i>CAPITAL STOCK</i> (note 3)		
Authorized		
390,000 Common shares of no par value		
Issued		
371,406 Common shares (369,006 in 1977)	52,093	37,099
 <i>RETAINED EARNINGS</i>	 <u>5,995,466</u>	 <u>5,307,391</u>
	<u>6,047,559</u>	<u>5,344,490</u>
	 <u>\$9,026,168</u>	 <u>\$7,763,148</u>

LEASE COMMITMENTS (note 4)

UNFUNDED PAST SERVICE PENSION LIABILITY (note 5)

SUBSEQUENT EVENT (note 6)

EASTERN BAKERIES LIMITED
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED OCTOBER 28, 1978

	<u>1978</u>	<u>1977</u>
Balance at beginning of year	\$5,307,391	\$4,434,518
Net income	<u>1,118,906</u>	<u>1,249,254</u>
	6,426,297	5,683,772
Dividends		
Preferred shares		29,150
Common shares	<u>430,831</u>	<u>317,231</u>
	430,831	346,381
Premium and tax on the redemption of preferred shares		<u>30,000</u>
	<u>430,831</u>	<u>376,381</u>
BALANCE AT END OF YEAR	<u><u>\$5,995,466</u></u>	<u><u>\$5,307,391</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED OCTOBER 28, 1978

	<u>1978</u>	<u>1977</u>
<i>WORKING CAPITAL DERIVED FROM</i>		
Operations	\$1,900,538	\$1,509,962
Repayment of mortgage receivable	164,000	
Issue of common shares	14,994	5,632
Sale of fixed assets	3,915	13,371
Sale of Fredericton land and building		<u>325,700</u>
	<u>2,083,447</u>	<u>1,854,665</u>
<i>WORKING CAPITAL APPLIED TO</i>		
Additions to fixed assets	1,340,228	780,952
Dividends	430,831	346,381
Redemption of preferred shares		530,000
Mortgage receivable		<u>164,000</u>
	<u>1,771,059</u>	<u>1,821,333</u>
INCREASE IN WORKING CAPITAL	312,388	33,332
WORKING CAPITAL AT BEGINNING OF YEAR	<u>2,299,467</u>	<u>2,266,135</u>
WORKING CAPITAL AT END OF YEAR	<u><u>\$2,611,855</u></u>	<u><u>\$2,299,467</u></u>

EASTERN BAKERIES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEAR ENDED OCTOBER 28, 1978

1. ACCOUNTING POLICIES

(a) Basis of consolidation

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary company, Berwick Bakery Limited.

(b) Inventories

Inventories of raw materials, wrapping supplies and other items are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(c) Fixed assets

All fixed assets are stated at cost. Depreciation is provided on both the diminishing balance basis and the straight line basis using the following annual rates:

Land improvements	4%
Buildings	4 to 10%
Machinery and equipment	6.67 to 25%
Delivery equipment	30%

(d) Goodwill

Goodwill is stated at cost and is not being amortized.

(e) Income taxes

Deferred income taxes arise from claiming depreciation and other items for tax purposes in amounts differing from those recorded in the accounts.

2. FIXED ASSETS

	<u>1978</u>		<u>1977</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Net</u>
Land	\$ 202,946		\$ 202,946	\$ 199,346
Land improvements	31,015	\$ 9,160	21,855	20,266
Buildings	2,385,979	964,967	1,421,012	1,424,772
Machinery and equipment	6,250,624	4,283,442	1,967,182	1,276,861
Delivery equipment	467,215	397,960	69,255	68,324
	<u>\$9,337,779</u>	<u>\$5,655,529</u>	<u>\$3,682,250</u>	<u>\$2,989,569</u>

3. CAPITAL STOCK

During the year stock options on 2,400 common shares were exercised, leaving a balance at October 28, 1978 of 180 options at \$6 per share. The remaining options expire in 1979.

The exercise of stock options outstanding at October 28, 1978 would not have had a material diluting effect on earnings per share.

4. LEASE COMMITMENTS

The company rents delivery equipment under a lease. The minimum annual rentals in each of the next four years are:

1979	\$252,000
1980	129,000
1981	52,000
1982	9,000

5. UNFUNDED PAST SERVICE PENSION LIABILITY

The Company has paid \$90,000 for past service pension liability outstanding at the previous year end. In addition, improvement to the pension plan effective June 30, 1978 resulted in past service obligations of the company amounting to \$224,000, of which \$80,000 has been paid leaving a liability at October 28, 1978 of \$144,000. The company expects to repay this liability over the next two years.

6. SUBSEQUENT EVENT

The directors have enacted by-law "ZZ" authorizing the subdivision of the presently authorized 390,000 common shares on a basis of three common shares for each of the presently authorized common shares.

The above by-law "ZZ" will be presented to the shareholders for approval and confirmation on December 14, 1978.

AUDITORS' REPORT

To the Shareholders of Eastern Bakeries Limited

We have examined the consolidated balance sheet of Eastern Bakeries Limited as at October 28, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 28, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saint John, New Brunswick
December 11, 1978

Thorne Riddell & Co.
Chartered Accountants

